Governor Mel Carnahan

AD HOC TASK FORCE ON TOTAL COMPENSATION

Chairperson Jerry Conley

November 30, 2000

The Honorable Roger Wilson
Governor of Missouri
Capitol Building, Room 216
Jefferson City, Missouri 65101

Dear Governor Wilson:

On behalf of the Ad Hoc Task Force on Total Compensation (TFTC) and the State Retirement Advisory Commission (SRAC), I am pleased to present our findings and recommendations as required by Executive Order 00-11. The SRAC provided the TFTC with a detailed report and recommendations pertaining to retirement legislation introduced during the last legislative session, as well as other recommendations pertaining to specific issues experienced by retirees in retirement.

The TFTC reviewed the report and considered the proposed recommendations. Members of the TFTC voted to endorse the recommendations contained in the SRAC report with the exception of legislation that would create a separate retirement plan for the regional colleges and universities. This issue is discussed on page one of the Addendum, and on page 21 of the SRAC report.

We sincerely hope that you and the General Assembly will find these recommendations useful in our collective efforts to provide state employees with financial security in an equitable and cost-effective manner.

Sincerely,

JERRY M. CONLEY, Chair
Ad Hoc Task Force on Total Compensation

Enclosures

c: Members
Resource Staff

AD HOC TASK FORCE ON TOTAL COMPENSATION

ADDENDUM TO STATE RETIREMENT ADVISORY COMMISSION REPORT

Executive Order 00-11 requires the Ad Hoc Task Force on Total Compensation (TFTC) to issue an addendum to the State Retirement Advisory Commission (SRAC) report by November 30, 2000. The SRAC report contains recommendations on a number of legislative proposals considered in the second regular session of the 90th General Assembly. This addendum contains a recommended course of action regarding each of the SRAC recommendations.

WORKFORCE SHORTAGE

HB 2069 – DROP legislation

SRAC recommendation: A Deferred Retirement Option Plan (DROP) is an optional payment form under a defined benefit plan that allows members to receive a partial lump sum payment of his/her retirement account in addition to a reduced monthly life retirement benefit. The SRAC determined that valuable, long-service employees could possibly be induced to delay their retirement if a DROP was added to the current menu of retirement options. Adding this payment option to the retirement systems could afford state agencies the opportunity to further enhance their succession planning efforts, and ease the transition problems associated with retirement. If the TFTC is supportive of this conclusion, the SRAC recommends that legislation be drafted and introduced that would make the proposed back DROP model available to members retiring under Chapter 104 RSMo (other than elected officials and members of the general assembly).

TFTC recommendation: The TFTC concurs with this recommendation. The DROP legislation should be cost neutral, should be available to all similarly situated employees, and should be designed to prevent employees from making poor choices.

RECIPROCITY, PORTABILITY, AND PUBLIC EMPLOYEE PLANS

HB 1660 – ORP legislation

SRAC recommendation: In the past decade, legislation has been introduced nearly every year which would have allowed each of the regional colleges and universities to establish an Optional Retirement Plan (ORP) for all full-time faculty and senior administrative personnel. Under these proposals, all future employees of the institutions in these classifications would have been allowed to elect participation in an ORP in lieu of

participating in MOSERS. In some versions of the legislation, participation also would have been extended to current members of MOSERS who were employed in ORP eligible positions at these institutions.

The fundamental question facing the state is whether or not it should deviate from the "attract and retain" philosophy embedded in the existing retirement plan and, as a consequence, facilitate employee movement to other employers. Although the colleges and universities maintain that that the current defined benefit plan's lack of portability discourages some job candidates from taking positions with Missouri colleges, that can also be said for the recruitment of certain positions at all state agencies. After much discussion, the SRAC determined that establishing an ORP for the regional colleges and universities would run counter to the "attract and retain" philosophy that has been promoted by the state and endorsed in the Year 2000 Plan.

If it is determined that faculty and senior administrative personnel of the colleges and universities truly have different needs than other state agencies, then the SRAC would recommend an alternative to the ORP model proposed in the past. *The University Retirement Plan (URP)* alternative model would establish a defined contribution plan with immediate vesting for faculty and senior administrative personnel at the regional colleges and universities who are hired after the effective date of the legislation. There would be no option – all qualifying personnel would automatically participate in the defined contribution plan. (Since it is not needed to attract employees who are already there, it should not be extended to the present population.)

TFTC recommendation: The TFTC opposes this recommendation. Although the URP approach would address most of the problematic design issues associated with past ORP proposals – specifically, equal protection, adverse selection, and irrevocable elections – the TFTC believes creating a separate retirement plan for certain groups is detrimental to the defined benefit plan. The defined benefit plan structure is designed to meet key human resource objectives, particularly reducing turnover among younger employees (with a career goal of 30 years of service.) A defined contribution plan structure runs counter to this objective by facilitating turnover among younger employees with less service. In addition, the creation of special provisions for a select group of employees (particularly for highly compensated employees) creates the perception of unfairness or inequity among rank and file state employees. Benefit equity among employees in all state agencies is compromised with the establishment of a separate retirement plan for faculty and administrative personnel at the state colleges and universities.

BENEFIT EQUITY

SB 863 and HB 1914; HB 16645 and SB 813 – Public Safety legislation

SRAC recommendation: SB 863 and HB 1914 would have provided uniformed conservation agents (both active and terminated-vested employees), retirees, and survivors with an additional 33.3% retirement benefit in the Missouri State Employees'

__TFTC recommendation:__ The TFTC concurs with the concept of basing the state's contribution for retiree health care upon the individual's length of service. The TFTC further endorses a minimum subsidy floor and maximum ceiling to be established for current retirees and that the state's contribution rate for retiree dependent coverage would not exceed the state's contribution for dependents of active employees. For current retirees, the proposal should provide that the current dollar amounts of the state's contribution would remain the same. New retirees would utilize the longevity based rate structure. The TFTC encourages a phased-in implementation of this model as soon as possible. The details of this approach would have to be finalized in consultation with staff from MCHCP, Governor's Office and the Legislature and other affected groups.

The actual numbers may vary based on the formula selected; however the philosophy of a service based approach has been endorsed and encouraged.

House Bill 1159 – Pension Tax Exemption legislation

__SRAC recommendation:__ During the last session of the General Assembly, 11 various pension income tax exemption proposals were introduced. One of these proposals, HB 1159 (Boucher) moved through both houses of the General Assembly, however, was not truly agreed to and finally passed. This particular proposal would have eliminated the phase-in and exempted all retirement income from taxation beginning with tax year 2002. The estimated loss to general revenue was $148.4 million in fiscal year 2002 and $202.7 million in fiscal year 2003. It is anticipated that this proposal will be filed again in the upcoming session.

The SRAC heard testimony from retirees, and other groups interested in obtaining additional tax relief to ease the financial burden associated with rising costs in retirement. The SRAC was unable to adequately explore and make a recommendation on this issue due to time constraints and the number of other complex legislative retirement proposals that the SRAC was charged with evaluating. ***More importantly, the SRAC felt that the issue of pension income tax exemption legislation extended beyond the scope of their charge and should be evaluated by those with expertise in the taxation/revenue area.***

__TFTC recommendation:__ The TFTC concurs with this recommendation.

Senate Bill 1022 – Deferred Compensation legislation

__SRAC recommendation:__ SB 1022 (Scott) would have transferred oversight of the Deferred Compensation Program from the Missouri State Employees' Deferred Compensation Commission to the Board of Trustees of MOSERS. Members from the subcommittees of the Deferred Compensation Commission and the MOSERS' Board of Trustees reported to the SRAC that they have met jointly to discuss their plans' structures, responsibilities, interests, and alternatives for the future.

The SRAC is supportive of measures that provide better coordination of benefits and communications that work in the best interest of the plan participants. The SRAC recommends that the two boards continue to work towards achieving improved service delivery and a better understanding by state employees of the overall benefit package.

__TFTC recommendation:__ The TFTC concurs with this recommendation.

Total Compensation Board or Commission

__SRAC recommendation:__ The SRAC noted that the TFTC has proven to be an effective means of ensuring that the state, as an employer, utilizes a comprehensive approach in assessing the appropriateness of salary and benefit levels for state employees. Although the TFTC terminates operations on December 31, 2000, the SRAC recommends that a similar board or commission be established through enabling legislation. This new board or commission would be given the task of evaluating policy and recommended actions relating to total compensation, retirement, health care, and other benefits for state employees under the Executive Branch on a permanent basis.

__TFTC recommendation:__ The TFTC concurs with this recommendation. The advisory function of the TFTC has provided the administration and legislators with additional information when considering salary and benefits proposals. Proposals can be measured against specific state human resource objectives and scarce resources can be directed toward the most equitable, comprehensive and appropriate proposals.

Plan (MSEP). HB 1665 and SB 813 would have provided a burial benefit and a lump sum death benefit to certain local and state government public safety officers killed in the line of duty. Only specific classifications of state employees named in the legislation would have been eligible to receive these benefits.

The SRAC believes that the issues associated with offering separate benefits for public safety employees were sufficiently and thoroughly explored by the Public Safety Retirement Advisory Commission (PSRAC) in 1998, and resolved through the enactment of the Year 2000 Plan (or MSEP 2000). The MSEP 2000 does not provide different benefit levels for general employees and public safety type classifications. Further, the SRAC believes that the state has adequately addressed the issues of employer responsibility for duty-related death by providing a 50% percent of final average pay minimum death benefit and expanding the state's basic life insurance coverage to include triple indemnity provisions and increased basic coverage amounts. Because these issues have been addressed for all state employees, the SRAC voted to oppose the additional one-third retirement benefit for conservation agents and special death and burial benefits for state public safety employees.

TFTC recommendation: The TFTC concurs. The Year 2000 Plan is designed to provide equitable benefits to all state employees, regardless of their classification. The state could be exposed to additional equal protection lawsuits from other employee groups if enhanced benefits are provided to certain classifications of public safety employees.

HB 2090 Public Service Commission legislation

SRAC recommendation: This legislation would have transferred regulatory law judges appointed by the Public Service Commission from MOSERS' General Employee Plan to the Administrative Law Judges' and Legal Advisors' Plan (ALJLAP). The PSC indicated that turnover due to low salaries is a significant problem for the agency. While the PSC is attempting to address the pay issue through appropriations, they believe expanding membership in the ALJLAP (which has a significantly higher benefit formula than the general employee plan) to include regulatory law judges would help resolve their retention issue.

The SRAC was unable to adequately explore and resolve this issue due to time constraints. The SRAC recommends that a separate commission be appointed to further evaluate the criteria for membership in the ALJLAP and to determine whether or not sufficient evidence exists to expand, limit or contract membership in the system in the future.

TFTC recommendation: The TFTC concurs.

FINANCIAL SECURITY IN RETIREMENT

HB 1847 – Formula increase legislation

SRAC recommendation: This legislation would have increased the current benefit formula in the closed plans that are administered by MOSERS and HTEHPRS from 1.6% to 1.7% for all active, terminated-vested, and retired members. The SRAC opposes this formula increase in the closed plans. The SRAC recognized that the Year 2000 Plan was designed to specifically achieve certain policy and personnel objectives, correct benefit inequities, promote individual choice (current retirees may elect to transfer to the Year 2000 Plan), and to accomplish all of these goals without increasing the state's costs for retirement programs. Also, the SRAC believes that providing the 1.7% formula in the closed plan would be a step backward in the pursuit of benefit equity. The SRAC pointed out that the 1.7% formula is already available to all past, present, and future employees through the new plan and to incorporate that formula in the old plan would create a benefit disparity between the new and old plan.

TFTC recommendation: The TFTC concurs. While the benefit formula was increased in the Year 2000 Plan, certain features were eliminated as a cost reduction to offset the costs of the increased multiplier and the temporary benefit. Members of the closed plan retain these survivor and minimum COLA features. Increasing the multiplier while retaining these other features creates a significant benefit disparity between the Year 2000 plan and closed plans.

Retiree health care - Report of the House Interim Committee on Employee Health Care Contributions

SRAC recommendation: The SRAC endorsed the desirable health care system characteristics noted by the House Interim Committee ***and proposed a structure which based the percentage of employer subsidy upon an employee's length of service.*** Given the current volatile nature of the health care industry, the SRAC believes a service-based health care model will serve as a future cost containment measure and will also ensure that the same quality of care is available to both the highest and lowest paid employees. The SRAC recommends adoption of the model that provides a subsidy towards a retiree's monthly premium of 2.5% per year of service based upon the applicable low cost plan option for each full year of actual state service with a maximum subsidy of 75%. The model does not include additional subsidies for dependent coverage. It should be noted, however, that the SRAC did not have unanimous support for this recommendation. In addition, after the SRAC completed its meetings the administration and the Missouri Consolidated Health Care Plan (MCHCP) took action to increase the health insurance subsidy for retirees for calendar year 2001.